

STONE COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2012

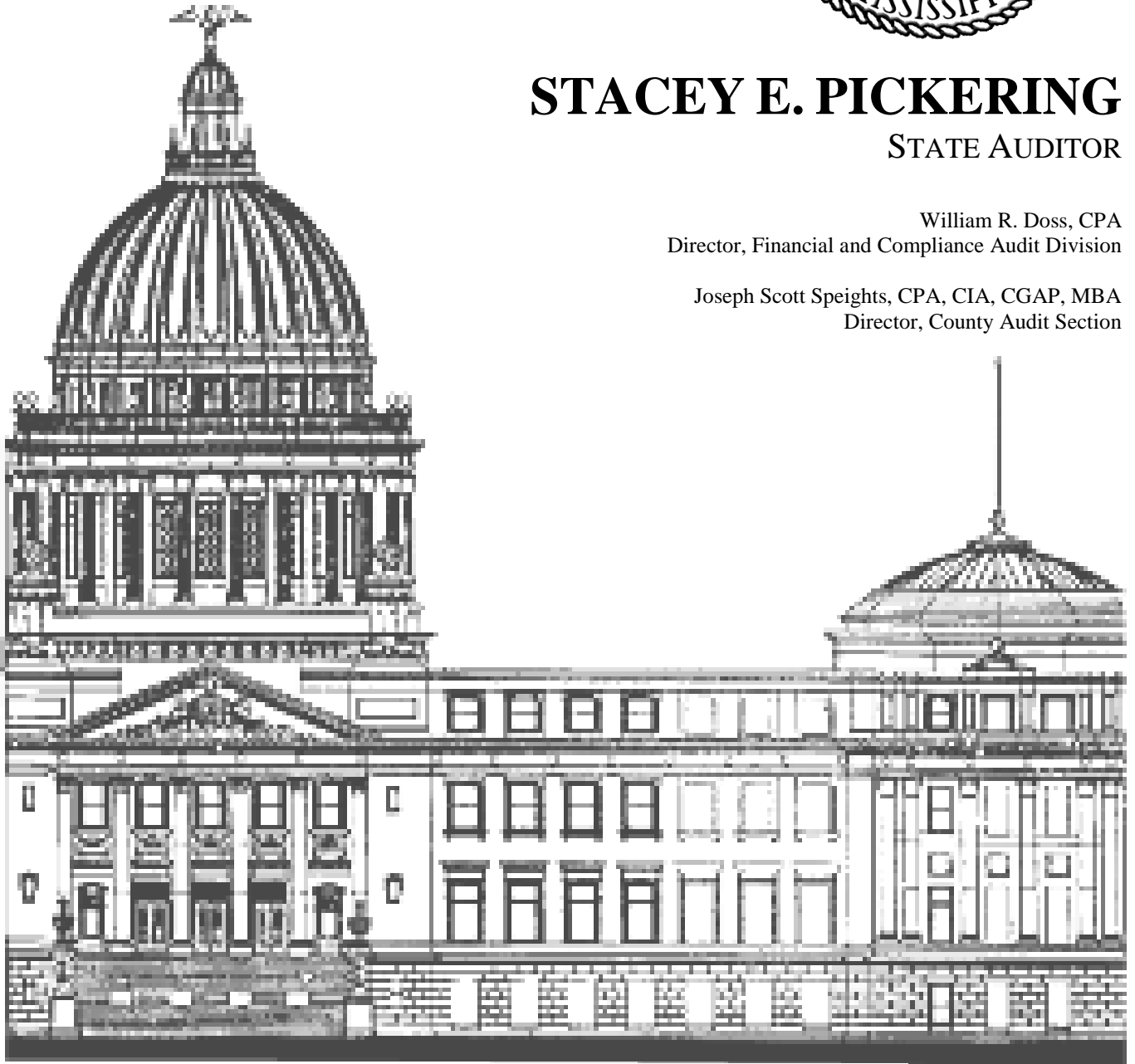


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

March 14, 2014

Members of the Board of Supervisors
Stone County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2012 financial and compliance audit report for Stone County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Stone County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Stone County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

STONE COUNTY

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STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, (the County) as of and for the year ended September 30, 2012, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fifth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

As discussed in Note 13 to the financial statements, the County has not recorded a liability for other postemployment benefits in the governmental activities or the business-type activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets and change the expenses of the governmental activities, business-type activities, and the Correctional Facility Fund. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities, the business-type activities, and the Correctional Facility Fund is not reasonably determinable.

Management did not properly maintain subsidiary records documenting fines receivable and the aging of these fines receivable. Adequate subsidiary records were not maintained and preserved for the Circuit Court and Justice Court fines receivable aging schedules at September 30, 2012. Due to the nature of the county's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$268,158 as of September 30, 2012.

In our opinion, because of the omission of the discretely presented component unit, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Stone County, Mississippi, as of September 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the matter discussed in the fourth paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the Correctional Facility Fund of Stone County, Mississippi, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the fines receivable reported in the General Fund, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Stone County, Mississippi, as of September 30, 2012, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Road and Bridge Fund, the Countywide Bridge and Culvert Fund, and the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Stone County, Mississippi, has omitted the Management's Discussion and Analysis and the Schedule of Funding Progress - Other Postemployment Benefits that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stone County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stone County, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for County Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

A handwritten signature in black ink, reading "Will-R. Doss". The signature is written in a cursive, slightly slanted style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2014

STONE COUNTY

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STONE COUNTY

FINANCIAL STATEMENTS

STONE COUNTY

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STONE COUNTY
Statement of Net Assets
September 30, 2012

Exhibit 1

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash	\$ 280,715		280,715
Restricted assets - investments		2,741,477	2,741,477
Property tax receivable	4,663,171		4,663,171
Fines receivable (net of allowance for uncollectibles of \$674,061)	268,158		268,158
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	546,891	587,965	1,134,856
Other receivables	3,619		3,619
Internal balances	245,209	(245,209)	0
Deferred charges - bond issuance costs		140,919	140,919
Capital assets:			
Land and construction in progress	1,205,074	127,473	1,332,547
Other capital assets, net	13,680,733	4,786,318	18,467,051
Total Assets	20,893,570	8,138,943	29,032,513
LIABILITIES			
Due to general depository	555,939		555,939
Claims payable	108,126	53,548	161,674
Intergovernmental payables	150,205		150,205
Short-term debt	1,023,503		1,023,503
Accrued interest payable	2,936	49,332	52,268
Deferred revenue	4,663,171		4,663,171
Other payables	29,619		29,619
Long-term liabilities			
Due within one year:			
Capital debt	601,500	427,887	1,029,387
Non-capital debt		12,820	12,820
Due in more than one year:			
Capital debt	2,357,883	2,919,798	5,277,681
Non-capital debt	145,466	90,107	235,573
Total Liabilities	9,638,348	3,553,492	13,191,840
NET ASSETS			
Invested in capital assets, net of related debt	11,926,424	1,566,106	13,492,530
Restricted:			
Expendable:			
General government	46,781		46,781
Debt service		817,590	817,590
Public safety	125,135	2,201,755	2,326,890
Public works	635,605		635,605
Culture and recreation	19,649		19,649
Economic development	51,250		51,250
Unemployment compensation	12,680		12,680
Unrestricted	(1,562,302)		(1,562,302)
Total Net Assets	\$ 11,255,222	4,585,451	15,840,673

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2012

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 3,019,357	679,796	40,651		(2,298,910)		(2,298,910)
Public safety	2,821,718	235,436	318,377	553,229	(1,714,676)		(1,714,676)
Public works	3,228,469		692,589	118,483	(2,417,397)		(2,417,397)
Health and welfare	196,017		28,463		(167,554)		(167,554)
Culture and recreation	201,192	6,269			(194,923)		(194,923)
Education	97,605		97,605				
Conservation of natural resources	55,315			63,675	8,360		8,360
Economic development and assistance	8,421			361,270	352,849		352,849
Interest on long-term debt	97,796				(97,796)		(97,796)
Total Governmental Activities	<u>9,725,890</u>	<u>921,501</u>	<u>1,177,685</u>	<u>1,096,657</u>	<u>(6,530,047)</u>		<u>(6,530,047)</u>
Business-type activities:							
Correctional facility	<u>3,700,865</u>	<u>3,952,349</u>				<u>251,484</u>	<u>251,484</u>
Total Business-type Activities	<u>3,700,865</u>	<u>3,952,349</u>				<u>251,484</u>	<u>251,484</u>
Total Primary Government	<u>\$ 13,426,755</u>	<u>4,873,850</u>	<u>1,177,685</u>	<u>1,096,657</u>	<u>(6,530,047)</u>	<u>251,484</u>	<u>(6,278,563)</u>
General revenues:							
Property taxes					\$ 5,772,144		5,772,144
Road & bridge privilege taxes					199,005		199,005
Grants and contributions not restricted to specific programs					262,836		262,836
Unrestricted interest income					5,352	237	5,589
Miscellaneous					253,106	76,662	329,768
Transfers					<u>2,684</u>	<u>(2,684)</u>	
Total General Revenues and Transfers					<u>6,495,127</u>	<u>74,215</u>	<u>6,569,342</u>
Changes in Net Assets					<u>(34,920)</u>	<u>325,699</u>	<u>290,779</u>
Net Assets - Beginning as previously reported					10,942,425	4,245,470	15,187,895
Prior period adjustments					<u>347,717</u>	<u>14,282</u>	<u>361,999</u>
Net Assets - Beginning, as restated					<u>11,290,142</u>	<u>4,259,752</u>	<u>15,549,894</u>
Net Assets - Ending					<u>\$ 11,255,222</u>	<u>4,585,451</u>	<u>15,840,673</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2012

Exhibit 3

	Major Funds			Other	Total
	General	Road and	Countywide	Governmental	Governmental
	Fund	Bridge	Bridge and Culvert	Funds	Funds
	Fund	Fund	Fund		
ASSETS					
Cash	\$ 254,945			25,770	280,715
Property tax receivable	3,238,620	211,119	632,605	580,827	4,663,171
Fines receivable (net of allowance for uncollectibles of \$674,061)	268,158				268,158
Loans receivable	22,439				22,439
Allowance for uncollectible accounts	(22,439)				(22,439)
Intergovernmental receivables	114,874			432,017	546,891
Other receivables	3,619				3,619
Due from other funds	7,424	419,641	185,520	757,784	1,370,369
Advances to other funds	4,944		3,456	5,925	14,325
Total Assets	\$ 3,892,584	630,760	821,581	1,802,323	7,147,248
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to general depository	\$ 555,939				555,939
Claims payable	30,876	15,722	812	60,716	108,126
Intergovernmental payables	139,987				139,987
Due to other funds	905,080	6,245		203,392	1,114,717
Advances from other funds	22,071	4,515		8,400	34,986
Deferred revenue	3,506,778	211,119	632,605	580,827	4,931,329
Other payables	29,619				29,619
Short-term debt	305,150			718,353	1,023,503
Total Liabilities	5,495,500	237,601	633,417	1,571,688	7,938,206
Fund balances:					
Nonspendable:					
Advances	4,944				4,944
Restricted for:					
General government				46,781	46,781
Public safety				125,135	125,135
Public works		393,159	188,164	54,282	635,605
Culture and recreation				19,649	19,649
Economic development and assistance				51,250	51,250
Unemployment compensation				12,680	12,680
Committed to:					
Debt service				13,090	13,090
Unassigned	(1,607,860)			(92,232)	(1,700,092)
Total Fund Balances	(1,602,916)	393,159	188,164	230,635	(790,958)
Total Liabilities and Fund Balances	\$ 3,892,584	630,760	821,581	1,802,323	7,147,248

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2012

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ (790,958)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$5,580,180.	14,885,807
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	268,158
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,104,849)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(2,936)</u>
Total Net Assets - Governmental Activities	\$ <u><u>11,255,222</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2012

	<u>Major Funds</u>				
	<u>General</u>	<u>Road and</u>	<u>Countywide</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Bridge</u>	<u>Bridge and Culvert</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
REVENUES					
Property taxes	\$ 4,066,373	256,574	658,703	790,494	5,772,144
Road and bridge privilege taxes		199,005			199,005
Licenses, commissions and other revenue	250,342			7,665	258,007
Fines and forfeitures	388,041			24,388	412,429
Intergovernmental revenues	611,745	595,919	141,601	1,187,913	2,537,178
Charges for services	170,709				170,709
Interest income	1,919	964	679	1,790	5,352
Miscellaneous revenues	70,014	18,223		119,884	208,121
Total Revenues	<u>5,559,143</u>	<u>1,070,685</u>	<u>800,983</u>	<u>2,132,134</u>	<u>9,562,945</u>
EXPENDITURES					
Current:					
General government	2,916,514			13,102	2,929,616
Public safety	2,198,754			884,458	3,083,212
Public works	4,050	1,742,592	820,455	767,895	3,334,992
Health and welfare	167,517				167,517
Culture and recreation	162,916			77,353	240,269
Education	97,605				97,605
Conservation of natural resources	55,315				55,315
Economic development and assistance	4,365			581,823	586,188
Debt service:					
Principal	76,553	150,941		637,058	864,552
Interest	24,449	14,716		59,121	98,286
Total Expenditures	<u>5,708,038</u>	<u>1,908,249</u>	<u>820,455</u>	<u>3,020,810</u>	<u>11,457,552</u>
Excess of Revenues over (under) Expenditures	<u>(148,895)</u>	<u>(837,564)</u>	<u>(19,472)</u>	<u>(888,676)</u>	<u>(1,894,607)</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued		813,069		356,400	1,169,469
Proceeds from sale of capital assets		35,550		204,644	240,194
Compensation for loss of capital assets		22,873			22,873
Transfers in				751,751	751,751
Transfers out	(184,934)			(566,817)	(751,751)
Total Other Financing Sources and Uses	<u>(184,934)</u>	<u>871,492</u>	<u>0</u>	<u>745,978</u>	<u>1,432,536</u>
Net Changes in Fund Balances	<u>(333,829)</u>	<u>33,928</u>	<u>(19,472)</u>	<u>(142,698)</u>	<u>(462,071)</u>
Fund Balances - Beginning, as previously reported	(1,269,087)	359,231	207,636	359,907	(342,313)
Prior period adjustment				13,426	13,426
Fund Balances - Beginning, as restated	<u>(1,269,087)</u>	<u>359,231</u>	<u>207,636</u>	<u>373,333</u>	<u>(328,887)</u>
Fund Balances - Ending	<u>\$ (1,602,916)</u>	<u>393,159</u>	<u>188,164</u>	<u>230,635</u>	<u>(790,958)</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (462,071)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,798,228 exceeded depreciation of \$921,818 in the current period.	876,410
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$44,985 and the proceeds from the sale of \$240,194 and compensation for loss of capital assets of \$22,873 in the current period.	(218,082)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	80,356
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$1,169,469 exceeded debt repayments of \$864,552.	(304,917)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The increase in compensated absences payable	(9,789)
The decrease in accrued interest payable	489
An increase due to a transfer of equipment from the enterprise fund	<u>2,684</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(34,920)</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2012

Exhibit 5

	Business-type Activities - Enterprise Fund Correctional Facility Fund
ASSETS	
Current assets:	
Restricted assets - investments	\$ 2,741,477
Intergovernmental receivables	587,965
Due from other funds	31,940
Advances to other funds	22,071
Total Current Assets	<u>3,383,453</u>
Noncurrent assets:	
Deferred charges - bond issuance costs	140,919
Capital assets:	
Land and construction in progress	127,473
Other capital assets, net	4,786,318
Total Noncurrent Assets	<u>5,054,710</u>
Total Assets	<u>8,438,163</u>
LIABILITIES	
Current liabilities:	
Claims payable	53,548
Due to other funds	297,810
Advances from other funds	1,410
Accrued interest payable	49,332
Capital debt:	
Capital leases payable	48,394
Other long-term liabilities	379,493
Non-capital debt:	
Other long-term liabilities	12,820
Total Current Liabilities	<u>842,807</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	42,837
Other long-term liabilities	2,876,961
Non-capital debt:	
Compensated absences payable	73,533
Other long-term liabilities	16,574
Total Noncurrent Liabilities	<u>3,009,905</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,566,106
Restricted for:	
Debt service	817,590
Public safety	2,201,755
Total Net Assets	<u>\$ 4,585,451</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Fund
	<u>Correctional Facility Fund</u>
Operating Revenues	
Charges for services	\$ 3,952,349
Miscellaneous	<u>76,908</u>
Total Operating Revenues	<u>4,029,257</u>
Operating Expenses	
Personal services	2,040,916
Contractual services	558,264
Materials and supplies	775,036
Depreciation expense	<u>167,842</u>
Total Operating Expenses	<u>3,542,058</u>
Operating Income (Loss)	<u>487,199</u>
Nonoperating Revenues (Expenses)	
Interest income	237
Gain (loss) on sale of capital assets	(246)
Interest expense	(138,676)
Amortization of deferred charges - bond issuance costs	<u>(20,131)</u>
Net Nonoperating Revenue (Expenses)	<u>(158,816)</u>
Net Income (Loss) Before Transfers	328,383
Transfers out	<u>(2,684)</u>
Changes in Net Assets	325,699
Net Assets - Beginning, as previously reported	4,245,470
Prior period adjustment	<u>14,282</u>
Net Assets - Beginning, as restated	<u>4,259,752</u>
Net Assets - Ending	<u>\$ 4,585,451</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2012

Exhibit 7

	Business-type Activities - Enterprise Fund Correctional Facility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,793,392
Payments to suppliers	(1,352,095)
Payments to employees	(2,032,922)
Other miscellaneous cash receipts	76,908
Net Cash Provided (Used) by Operating Activities	<u>485,283</u>
Cash Flows From Noncapital Financing Activities	
Proceeds of long-term debt	38,765
Cash received from other funds:	
Loans from other funds	297,810
Principal paid on long-term debt	(9,370)
Interest expense	(774)
Cash paid to other funds:	
Loans made to other funds	(31,940)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>294,491</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds of long-term debt	91,646
Acquisition and construction of capital assets	(212,650)
Principal paid on long-term debt	(413,889)
Interest paid on debt	(142,810)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(677,703)</u>
Cash Flows From Investing Activities	
Interest on deposits	237
Net Cash Provided (Used) by Investing Activities	<u>237</u>
Net Increase (Decrease) in Cash and Cash Equivalents	102,308
Cash and Cash Equivalents at Beginning of Year	<u>2,639,169</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,741,477</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 487,199
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	167,842
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	(158,957)
Increase (decrease) in claims payable	(18,795)
Increase (decrease) in compensated absences liability	7,994
Total Adjustments	<u>(1,916)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 485,283</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2012

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 235,163
Due from other funds	<u>10,218</u>
Total Assets	<u>\$ 245,381</u>
LIABILITIES	
Intergovernmental payables	\$ <u>245,381</u>
Total Liabilities	<u>\$ 245,381</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Stone County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Stone County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Stone County Recreation Association

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the county.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Road and Bridge Fund - This fund is used to account for monies from specific revenue sources that are restricted for road maintenance.

Countywide Bridge and Culvert Fund - This fund is used to account for monies from specific revenue sources that are restricted for bridge maintenance.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

The county reports the following major Enterprise Fund:

Correctional Facility Fund - This fund is used to account for income from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures have been reported as restricted assets. Certain resources set aside for the repayment of the county's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue" fund is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of the trust agreement. The "depreciation and operating reserve" fund is used to pay the costs of major repairs and replacements to the correctional facility, the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The "excess revenue" fund is used to pay the costs of major repairs and replacements to the correctional facility as well as to pay operating and maintenance expense when other funds are insufficient to pay these expenses within established limitations. The "debt service reserve" fund is used to report resources set aside to subsidize potential deficiencies from the county's operation of the correctional facility that could adversely affect debt service payments. The "general" account is used to accumulate funds to pay the principal and interest payments due on the county's enterprise fund revenue bonds. When both restricted and nonrestricted assets are available for use, the policy is to use the restricted assets first.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental- or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. The extent to which capital asset costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Stone County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the county:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Supervisors, the county's highest level of decision-making authority. This formal action is an order of the Board of Supervisors as approved in the board minutes.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the county's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the county's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

N. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities – Governmental Activities.

Explanation	Amount
To correct prior year errors in capital assets, net	\$ 334,291
To correct prior year error in revenue recognition	13,426
Total prior period adjustments	\$ 347,717

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Explanation	Amount
To correct prior period error in revenue recognition	\$ 13,426

Exhibit 2 – State of Activities – Business-type Activities.

Exhibit 6 - Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.

Explanation	Amount
To correct prior-year errors in capital assets, net	\$ 14,282

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(3) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2012, was \$515,878, and the bank balance was \$1,031,042. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the county's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

Investments:

As provided in Section 91-13-8, Miss. Code Ann. (1972), the following investments of the county are handled through a trust indenture between the county and the trustee related to the operations of the Stone County Regional Correctional Facility.

Investments balances at September 30, 2012, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
SEI Daily Income Trust Mutual Fund	Less than one year	\$ <u>2,741,477</u>	AAA

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972) limits the maturity period of any investment to no more than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. These investments are uninsured, unregistered and are not backed by the full faith of the federal government.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2012:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 6,245
General	Other Governmental Funds	1,179
Road and Bridge	General	419,641
Countywide Bridge and Culvert	General	185,520
Other Governmental Funds	General	257,761
Other Governmental Funds	Other Governmental Funds	202,213
Other Governmental Funds	Correctional Facility	297,810
Correctional Facility	General	31,940
Agency Funds	General	10,218
Total		<u>\$ 1,412,527</u>

The majority of the receivables represent amounts received from various funds to cover deficit cash balances. All other receivables represent either tax revenue collected in September, 2012 but not settled until October, 2012, or errors in posting revenue during the year. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 4,944
Countywide Bridge and Culvert	Other Governmental Funds	3,456
Other Governmental Funds	Road and Bridge	4,515
Other Governmental Funds	Correctional Facility	1,410
Correctional Facility	General	22,071
Total		<u>\$ 36,396</u>

The amount payable to the Enterprise Fund represents the correction of a prior-year error in the posting of revenue. The other amounts represent the correction of prior-years' errors in the posting of principal payments. These amounts are expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
Other Governmental Funds	General	\$ 184,934
Other Governmental Funds	Other Governmental Funds	566,817
Total		<u>\$ 751,751</u>

The principal purpose of interfund transfers was to provide funds to make debt payments or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer. Also, during the Fiscal Year 2012 an asset was transferred from the Correctional Facility to the County. This transfer is reflected on Exhibit 2 and as a reconciling item on Exhibit 4-1 in the amount of \$2,684.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2012, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 75,216
State and community highway safety grant	38,906
Disaster grants - public assistance	13,179
Hazard mitigation grants	253,494
Investments for public works and economic development facilities	162,741
Other grants	<u>3,355</u>
Total Governmental Activities	\$ <u><u>546,891</u></u>
Business-type Activities:	
Housing prisoner reimbursement	\$ <u><u>587,965</u></u>

(6) Loans Receivable.

Loans receivable balances at September 30, 2012, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Less: Allowance for doubtful accounts*				<u>(22,439)</u>
Total				\$ <u><u>0</u></u>

* The Emergency Medical Services District loan receivable was determined to be uncollectible in fiscal year 1997.

(7) Restricted Assets.

The balances of the restricted asset accounts in the enterprise funds are as follows:

General account	\$ 407,076
Revenue fund	594,707
Depreciation and operating reserve fund	500,025
Debt service reserve fund	410,514
Mandatory redemption fund	128
Excess revenue fund	<u>829,027</u>
Total restricted assets	\$ <u><u>2,741,477</u></u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2012

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2012:

Governmental activities:

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments*	Balance Sept. 30, 2012
<u>Non-depreciable capital assets:</u>					
Land	\$ 459,256	11,500			470,756
Construction in progress	4,689,136	1,309,956		(5,264,774)	734,318
Total non-depreciable capital assets	5,148,392	1,321,456	0	(5,264,774)	1,205,074
<u>Depreciable capital assets:</u>					
Infrastructure	66,890				66,890
Buildings	7,756,845			5,285,165	13,042,010
Improvements other than buildings	188,960				188,960
Mobile equipment	3,472,143	58,923	376,150	1,226,023	4,380,939
Furniture and equipment	467,727	12,549		(74,280)	405,996
Leased property under capital leases	2,369,224	405,300	392,341	(1,206,065)	1,176,118
Total depreciable capital assets	14,321,789	476,772	768,491	5,230,843	19,260,913
<u>Less accumulated depreciation for:</u>					
Infrastructure	3,216	402			3,618
Buildings	1,472,719	253,101			1,725,820
Improvements other than buildings	7,558	7,558			15,116
Mobile equipment	2,440,394	320,788	338,534	638,766	3,061,414
Furniture and equipment	266,592	57,641		(10,896)	313,337
Leased property under capital leases	1,389,198	282,328	211,875	(998,776)	460,875
Total accumulated depreciation	5,579,677	921,818	550,409	(370,906)	5,580,180
Total depreciable capital assets, net	8,742,112	(445,046)	218,082	5,601,749	13,680,733
Governmental activities capital assets, net	\$ 13,890,504	876,410	218,082	336,975	14,885,807

Business-type activities:

Business-type activities:

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments*	Balance Sept. 30, 2012
<u>Non-depreciable capital assets:</u>					
Land	\$ 12,957				12,957
Construction in Progress		114,516			114,516
Total non-depreciable capital assets	12,957	114,516	0	0	127,473
<u>Depreciable capital assets:</u>					
Buildings	5,851,356				5,851,356
Mobile equipment	114,101			(26,837)	87,264
Furniture and equipment	171,878	9,873	24,645		157,106
Leased property under capital leases	72,729	88,261			160,990
Total depreciable capital assets	6,210,064	98,134	24,645	(26,837)	6,256,716

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2012

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments*	Balance Sept. 30, 2012
<u>Less accumulated depreciation for:</u>					
Buildings	1,146,782	117,033			1,263,815
Mobile equipment	95,568	3,570		(38,435)	60,703
Furniture and equipment	96,852	18,255	24,399		90,708
Leased property under capital leases	26,188	28,984			55,172
Total accumulated depreciation	<u>1,365,390</u>	<u>167,842</u>	<u>24,399</u>	<u>(38,435)</u>	<u>1,470,398</u>
Total depreciable capital assets, net	<u>4,844,674</u>	<u>(69,708)</u>	<u>246</u>	<u>11,598</u>	<u>4,786,318</u>
Business-type activities capital assets, net	<u>\$ 4,857,631</u>	<u>44,808</u>	<u>246</u>	<u>11,598</u>	<u>4,913,791</u>

* Adjustments are to correct errors in the capital asset records and to reflect certain routine classifications of paid-off capital leases and completed construction in progress. Also, an adjustment in the amount of \$2,684 is included to reflect the transfer of an asset from Business-type Activities to Governmental Activities.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 115,300
Public safety	446,525
Public works	299,672
Health and welfare	28,500
Culture and recreation	30,866
Economic development and assistance	<u>955</u>
Total governmental activities depreciation expense	<u>\$ 921,818</u>
Business-type activities:	
Correctional facility	<u>\$ 167,842</u>

Commitments with respect to unfinished capital projects at September 30, 2012, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Old Wire Road Trail Project	\$ 869,484	September, 2013
Stone County Old Highway 49 Project	25,491	February, 2013
Inda Road Improvement Project	140,177	February, 2013

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(9) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2012, to January 1, 2013. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(10) Operating Leases.

As Lessor:

The county receives income from property it leases under a noncancellable operating lease. Total income from such lease was \$30,852 for the year ended September 30, 2012. The future minimum lease receivables for this lease are as follows:

<u>Year Ended September 30</u>		<u>Amount</u>
2013	\$	28,479
2014		28,479
2015		28,479
2016		28,479
2017		28,479
2018 – 2022		<u>23,733</u>
Total Minimum Payments Required	\$	<u><u>166,128</u></u>

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$36,948 for the year ended September 30, 2012. The future minimum lease payments for these leases are as follows:

<u>Year Ended September 30</u>		<u>Amount</u>
2013	\$	<u><u>36,948</u></u>

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(11) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2012:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,017,967	160,990
Furniture and equipment	158,151	
Total	1,176,118	160,990
Less: Accumulated depreciation	(460,875)	(55,172)
Leased Property Under Capital Leases	\$ <u>715,243</u>	<u>105,818</u>

The following is a schedule by years of the total payments due as of September 30, 2012:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 235,304	14,640	48,394	2,078
2014	218,451	8,282	30,226	875
2015	116,329	3,727	12,611	107
2016	77,860	1,944		
2017	55,548	422		
Total	\$ <u>703,492</u>	<u>29,015</u>	<u>91,231</u>	<u>3,060</u>

(12) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2012:

Description of Debt	Balance Oct. 1, 2011	Additions	Reductions	Adjustments	Balance Sept. 30, 2012
2010 tax anticipation promissory note	\$ 550,105		550,105		0
2012 tax anticipation promissory note		500,000	194,850		305,150
Grant anticipation promissory note – storm shelters		567,000	299,736		267,264
Grant anticipation promissory note – Old Hwy 49 project		536,546	85,457		451,089
Total	\$ <u>550,105</u>	<u>1,603,546</u>	<u>1,130,148</u>	<u>0</u>	<u>1,023,503</u>

During the month of July, 2010, the county issued \$750,105 of tax anticipation notes with an interest rate of 2.40% and a maturity date of April, 2011, in order to alleviate a temporary operating cash flow deficiency. In April, 2011, the county renewed the unpaid portion of the tax anticipation notes in the amount of \$550,105, thereby extending the maturity date to May, 2012. The notes were repaid February 21, 2012.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

During the month of November, 2011, the county issued \$500,000 of tax anticipation notes with an interest rate of 1.99% and a maturity date of April, 2012, in order to alleviate an operating cash flow deficiency. In May, 2012, the county renewed the unpaid portion of the tax anticipation notes in the amount of \$305,150, thereby extending the maturity date to May, 2013.

During the month of July, 2012, the county issued a \$567,000 grant anticipation promissory note with an interest rate of 1.39% and a maturity date of July, 2013, in order to alleviate a temporary operating cash flow deficiency.

During the month of December, 2011, the county issued a \$536,546 grant anticipation promissory note with an interest rate of 1.74% and a maturity date of August, 2013, in order to alleviate a temporary operating cash flow deficiency.

(13) Other Postemployment Benefits.

Plan Description

The Stone County Board of Supervisors administers the County's health insurance plan which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The County's health insurance plan may be amended by the Stone County Board of Supervisors. The County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. The County does not issue a publicly available financial report for the Plan. The County has not recorded a liability for other postemployment benefits nor has the County reported the related note disclosures which are required by accounting principles generally accepted in the United States of America.

(14) Long-term Debt.

Debt outstanding as of September 30, 2012, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
General obligation bonds, Series 2003	\$ <u>965,000</u>	3.30 – 3.70%	03-2018
B. Capital Leases:			
Digital copier	\$ 751	1.49%	03-2013
IBM turnkey system	6,355	3.27%	06-2013
Two 2010 Dodge Chargers	23,886	3.71%	04-2014
2011 Ford F-150 truck	12,363	3.71%	04-2014
Two 2011 Dodge Chargers	33,852	3.00%	06-2014
1999 and 2000 Ford F-150 trucks	6,723	3.15%	07-2014
1999 GMC C6500 dump truck	4,979	3.15%	07-2014
2012 Durapatcher	29,776	1.56%	12-2014
2009 Commercial pumper truck	107,556	3.18%	01-2015
2010 Freightliner tanker truck	119,232	3.14%	02-2015
Motorola MC5500 consoles	18,680	4.27%	07-2016
Two 2012 Mack GU813 garbage trucks	<u>339,339</u>	1.82%	06-2017
Total Capital Leases	\$ <u>703,492</u>		

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
C. Other Loans:			
Justice Court Law Library addition	\$ 14,285	3.25%	08-2013
Health Department	92,240	3.80%	09-2013
2009 road paving note	310,037	3.25%	12-2014
2012 road paving note	783,293	1.55%	05-2017
MDA capital improvements revolving loan - CMI building	91,035	3.00%	06-2017
Total Other Loans	<u>\$ 1,290,890</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Stone County Regional Correctional Facility	<u>\$ 3,330,000</u>	3.10 – 4.00%	11-2019
B. Capital Leases:			
Two 2010 Dodge Chargers	\$ 11,132	3.26%	07-2013
2011 Ford F-350	7,059	3.49%	07-2013
2011 Ford F-150	23,362	3.00%	11-2014
2011 Ford F-150	26,862	3.20%	01-2015
2012 Ford E-350	22,816	3.00%	05-2015
Total Capital Leases	<u>\$ 91,231</u>		
C. Other Loans:			
2011 Ford F-150	<u>\$ 29,394</u>	3.00%	12-2014

Pledge of Future Revenues - The county has pledged future revenues for housing inmates, net of specified operating expenses, to repay \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Refunding Bonds issued on September 25, 2009. Proceeds from the bonds provided financing for refunding the Urban Renewal Revenue Bonds issued in 1999, which were used for the construction of the Stone County Regional Correctional Facility. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The bonds are payable solely from income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November 1, 2019. Annual principal and interest payments on the bonds are expected to require less than 23 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,830,982. Principal and interest paid for the current year and total inmate housing net revenues were \$504,285 and \$3,952,349, respectively.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2013	\$ 145,000	31,334	221,196	15,714
2014	150,000	26,356	118,365	8,858
2015	155,000	21,190	122,679	5,043
2016	165,000	15,668	16,161	1,105
2017	170,000	9,720	799,946	613
2018 – 2022	180,000	3,300	12,543	128
Total	<u>\$ 965,000</u>	<u>107,568</u>	<u>1,290,890</u>	<u>31,461</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2012

Business-type Activities:

Year Ending September 30	Limited Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2013	\$ 390,000	112,350	12,820	705
2014	405,000	100,027	13,210	316
2015	420,000	87,240	3,364	17
2016	430,000	74,065		
2017	440,000	58,600		
2018 – 2022	1,245,000	68,700		
Total	\$ 3,330,000	500,982	29,394	1,038

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2012, the amount of outstanding debt was equal to 0.87% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2012:

	Balance Oct. 1, 2011	Additions	Reductions	Adjustments	Balance Sept. 30, 2012	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 135,678	9,789			145,467	
General obligation bonds	1,100,000		135,000		965,000	145,000
Capital leases	917,787	386,176	600,471		703,492	235,304
Other loans	636,678	783,293	129,081		1,290,890	221,196
Total	\$ 2,790,143	1,179,258	864,552	0	3,104,849	601,500
Business-type Activities:						
Compensated absences	\$ 65,539	7,994			73,533	
Limited obligation bonds	3,710,000		380,000		3,330,000	390,000
Less:						
Deferred amount on refunding	(62,240)		(7,780)		(54,460)	(7,780)
Discounts	(21,813)		(2,727)		(19,086)	(2,727)
Capital leases	43,980	91,646	44,395		91,231	48,394
Other loans	0	38,765	9,371		29,394	12,820
Total	\$ 3,735,466	138,405	423,259	0	3,450,612	440,707

Compensated absences will be paid from the fund from which the employees' salaries were paid which are generally the General Fund, the Road and Bridge Fund, and the Correctional Facility Fund.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

(15) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2012:

Fund	Deficit Amount
General Fund	\$ 1,602,916
Triad Grant Fund	796
Sheriff Department Equipment Grants Fund	12,598
Hurricane Isaac Fund	4,393
Stone Elementary Shelter Fund	33,544
Stone High School Shelter Fund	20,506
Storm Shelters Debt Fund	267,080
Old Highway 49 Improvement Project Fund	116,465

(16) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

(17) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the counties of Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each county appoints one board member and may appoint two at the discretion of the county. By contractual agreement, the county's appropriation to the joint venture was \$70,064 in fiscal year 2012. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the city and county. By contractual agreement, the county's appropriation to the joint venture was \$2,000 in fiscal year 2012. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

(18) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$15,477 for support of the district in fiscal year 2012.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$27,500 for support of the agency in fiscal year 2012.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Counties, and one appointed at large. The county appropriated \$704,578 for maintenance and support of the college in fiscal year 2012.

Stone County Economic Development Partnership is governed by a 15-member board consisting of the President of the Board of Supervisors; five members appointed by the Board of Supervisors; three members appointed by the City of Wiggins; one member appointed by the Mississippi Gulf Coast Community College; and five members appointed at large by the Partnership. The organization is supported primarily by a sales tax collected by the county and remitted to the Partnership. The amount remitted in the 2012 fiscal year was \$342,726.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the nine members of the board of directors. The county contributed \$94,400 for support of the District in fiscal year 2012.

(19) Defined Benefit Pension Plan.

Plan Description. Stone County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2012, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011 and 2010 were \$547,554, \$500,636 and \$526,311, respectively, equal to the required contributions for each year.

(20) Subsequent Events.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Stone County evaluated the activity of the county through March 14, 2014, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2012

Subsequent to September 30, 2012, the county issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
10/12/2012	2.65%	\$ 35,519	Capital Lease	Ad Valorem Taxes
10/23/2012	1.15%	737,150	Tax Anticipation Note*	Ad Valorem Taxes
11/01/2012	1.25%	151,065	Grant Anticipation Note**	Federal Grant
01/29/2013	3.00%	29,633	Capital Lease	Ad Valorem Taxes
02/15/2013	3.95%	22,884	Capital Lease	Ad Valorem Taxes
03/06/2013	1.94%	74,857	Capital Lease	Ad Valorem Taxes
08/05/2013	1.10%	750,000	Tax Anticipation Note***	Ad Valorem Taxes
09/03/2013	1.35%	37,411	Capital Lease	Ad Valorem Taxes
03/06/2014	1.45%	41,902	Capital Lease	Ad Valorem Taxes

* As of April 1, 2013, this tax anticipation note has been repaid.

** As of July 30, 2013, this grant anticipation note has been repaid

*** The County paid \$300,000 on this note on February 18, 2014, and will pay the balance on the March 17, 2014 docket.

STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY

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STONE COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2012
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,324,320	4,075,971	4,075,971	
Licenses, commissions and other revenue	366,076	302,032	300,432	(1,600)
Fines and forfeitures	400,500	378,342	378,342	
Intergovernmental revenues	469,600	399,693	399,693	
Charges for services	165,000	170,709	170,709	
Interest income	5,500	1,900	1,900	
Miscellaneous revenues	115,485	101,304	101,304	
Total Revenues	<u>5,846,481</u>	<u>5,429,951</u>	<u>5,428,351</u>	<u>(1,600)</u>
EXPENDITURES				
Current:				
General government	3,998,410	4,372,795	3,017,367	1,355,428
Public safety	2,156,941	2,333,954	2,264,991	68,963
Public works	5,500	4,050	4,050	
Health and welfare	243,814	169,648	165,992	3,656
Culture and recreation	173,839	173,541	173,541	
Conservation of natural resources	56,864	57,647	55,687	1,960
Economic development and assistance	6,000	4,515	4,515	
Debt service:				
Principal			1,130,672	(1,130,672)
Interest			20,436	(20,436)
Total Expenditures	<u>6,641,368</u>	<u>7,116,150</u>	<u>6,837,251</u>	<u>278,899</u>
Excess of Revenues over (under) Expenditures	<u>(794,887)</u>	<u>(1,686,199)</u>	<u>(1,408,900)</u>	<u>277,299</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		31,940	31,940	
Long-term non-capital debt issued	750,000			
Compensation for loss of capital assets	10,000	6,466	6,466	
Transfers in	99,347	212,448	212,448	
Transfers out		(11,191)	(290,355)	(279,164)
Total Other Financing Sources and Uses	<u>859,347</u>	<u>239,663</u>	<u>(39,501)</u>	<u>(279,164)</u>
Net Change in Fund Balance	64,460	(1,446,536)	(1,448,401)	(1,865)
Fund Balances - Beginning	<u>114,100</u>	<u>(735,843)</u>	<u>(735,843)</u>	
Fund Balances - Ending	<u>\$ 178,560</u>	<u>(2,182,379)</u>	<u>(2,184,244)</u>	<u>(1,865)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Road and Bridge Fund
For the Year Ended September 30, 2012
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 259,765	256,654	256,654	
Road and Bridge Privilege Taxes	190,000	200,854	200,854	
Licenses, commissions and other revenue	2,500	2,569	2,569	
Intergovernmental revenues	558,500	599,595	599,595	
Interest income	750	964	964	
Miscellaneous revenues	55,000	128,018	128,018	
Total Revenues	<u>1,066,515</u>	<u>1,188,654</u>	<u>1,188,654</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	1,049,382	1,990,172	1,824,515	165,657
Debt service:				
Principal			152,396	(152,396)
Interest			13,261	(13,261)
Total Expenditures	<u>1,049,382</u>	<u>1,990,172</u>	<u>1,990,172</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>17,133</u>	<u>(801,518)</u>	<u>(801,518)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		813,069	813,069	
Compensation for loss of capital assets		22,873	22,873	
Transfers in		4,964	4,964	
Total Other Financing Sources and Uses	<u>0</u>	<u>840,906</u>	<u>840,906</u>	<u>0</u>
Net Change in Fund Balance	17,133	39,388	39,388	
Fund Balances - Beginning	<u>300,000</u>	<u>361,652</u>	<u>361,652</u>	
Fund Balances - Ending	<u>\$ 317,133</u>	<u>401,040</u>	<u>401,040</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Countywide Bridge and Culvert Fund
 For the Year Ended September 30, 2012
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 661,338	660,470	660,470	
Licenses, commissions and other revenue	2,200	2,418	2,418	
Intergovernmental revenues	226,000	139,183	139,183	
Interest income		678	678	
Miscellaneous revenues	25,000			
Total Revenues	<u>914,538</u>	<u>802,749</u>	<u>802,749</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	<u>905,903</u>	<u>835,120</u>	<u>835,213</u>	<u>(93)</u>
Total Expenditures	<u>905,903</u>	<u>835,120</u>	<u>835,213</u>	<u>(93)</u>
Excess of Revenues over (under) Expenditures	<u>8,635</u>	<u>(32,371)</u>	<u>(32,464)</u>	<u>(93)</u>
Net Change in Fund Balance	8,635	(32,371)	(32,464)	(93)
Fund Balances - Beginning	<u>185,000</u>	<u>209,000</u>	<u>209,000</u>	
Fund Balances - Ending	<u>\$ 193,635</u>	<u>176,629</u>	<u>176,536</u>	<u>(93)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY

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STONE COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2012 UNAUDITED

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Governmental Fund Types		
	General Fund	Road and Fund	Countywide Bridge and Fund
Budget (Cash Basis)	\$ (1,448,401)	39,388	(32,464)
Increase (Decrease)			
Net adjustments for revenue accruals	(120,062)	359,023	(1,766)
Net adjustments for expenditure accruals	<u>1,234,634</u>	<u>(364,483)</u>	<u>14,758</u>
GAAP Basis	<u>\$ (333,829)</u>	<u>33,928</u>	<u>(19,472)</u>

STONE COUNTY

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STONE COUNTY

SUPPLEMENTAL INFORMATION

STONE COUNTY

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STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/Passed-through the Mississippi State Treasurer's Office Schools and roads - grants to states*	10.665	N/A	\$ <u>220,619</u>
U.S. Department of Commerce Investments for public works and economic development facilities - (Direct Award)	11.300	04-79-06388	<u>275,813</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program and non-Entitlement grants in Hawaii	14.228	R-109-066-01-KCR	<u>6,219</u>
U.S. Department of the Interior/Passed-through the Mississippi Department of Marine Resources Coastal impact assistance program	15.426	M09AF16101	<u>63,675</u>
U.S. Department of Justice/Passed through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	10LB1661	<u>9,174</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed - through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 076 B(66)	<u>20,700</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration/ Passed- through the Mississippi Department of Public Safety - Office of Highway Safety State and community highway safety	20.600	12TA1661	<u>68,367</u>
Total U. S. Department of Transportation			<u>89,067</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	MS	<u>13,179</u>
Hazard mitigation grant*	97.039	DR-1604-MS-0050	95,884
Hazard mitigation grant*	97.039	DR-1604-MS-0215	15,180
Hazard mitigation grant*	97.039	DR-1604-MS-0224	33,080
Hazard mitigation grant*	97.039	DR-1604-MS-0241	315,377
Hazard mitigation grant*	97.039	DR-1604-MS-0242	<u>24,030</u>
Subtotal			<u>483,551</u>
Total U. S. Department of Homeland Security			<u>496,730</u>
Total Expenditures of Federal Awards			\$ <u><u>1,161,297</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

* Denotes major federal award program

STONE COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2012

Operating Expenditures, Cash Basis:

Salaries	\$	136,086
Contractual services		8,191
Expendable Commodities:		
Gasoline and petroleum products		80,043
Repair parts		11,546
Supplies		9,390
Tires		9,456
Professional fees, legal advertising, and other fees		167
Solid waste disposal fees		<u>133,769</u>

Solid Waste Cash Basis Operating Expenditures		388,648
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Full Cost Expenses:

Indirect administrative costs		1,515
Depreciation on equipment		64,152
Interest expenses on solid waste debt		7,318
Principal payments on solid waste debt		<u>69,764</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>531,397</u></u>
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STONE COUNTY

OTHER INFORMATION

STONE COUNTY

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STONE COUNTY
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2012
UNAUDITED

Name	Position	Company	Bond
Joseph Davenport	Supervisor District 1	RLI Surety	\$100,000
Daniel Harris	Supervisor District 2	RLI Surety	\$100,000
Lance Pearson	Supervisor District 3	RLI Surety	\$100,000
Scott Strickland	Supervisor District 4	RLI Surety	\$100,000
Dale Bond	Supervisor District 5	RLI Surety	\$100,000
Gerald Bond	County Administrator	RLI Surety	\$100,000
Gerald Bond	Chancery Clerk	RLI Surety	\$100,000
Sheila Lott	Purchase Clerk	RLI Surety	\$75,000
Brian Ross	Assisstant Purchase Clerk	RLI Surety	\$10,000
Glenda Cobb	Receiving Clerk	RLI Surety	\$75,000
Rickey McDonald	Assisstant Receiving Clerk	RLI Surety	\$50,000
Melissa Turan	Assisstant Receiving Clerk	RLI Surety	\$50,000
Wanda Berry	Assisstant Receiving Clerk	RLI Surety	\$50,000
Linda Sumrall	Assisstant Receiving Clerk	RLI Surety	\$50,000
Bobby R. Whitten	Assisstant Receiving Clerk	RLI Surety	\$50,000
Micholyn Harris Ramsey	Inventory Control Clerk	Western Surety	\$75,000
Robert Victor Clark	Road Manager	RLI Surety	\$50,000
Everett Compston	Constable	RLI Surety	\$50,000
Louis Simmons	Constable	RLI Surety	\$25,000
Kenny Hatten	Circuit Clerk	RLI Surety	\$100,000
Wanda Fairley	Deputy Circuit Clerk	RLI Surety	\$50,000
Treba E. Davis	Deputy Circuit Clerk	RLI Surety	\$50,000
Mike Farmer	Sheriff	RLI Surety	\$50,000
Jeffery O'Neal	Justice Court Judge	RLI Surety	\$50,000
Ricky Farmer	Justice Court Judge	RLI Surety	\$10,000
Glenda Joyce Cobb	Justice Court Clerk	RLI Surety	\$50,000
Sonya Warren	Deputy Justice Court Clerk	RLI Surety	\$50,000
Aletha Parker	Deputy Justice Court Clerk	RLI Surety	\$50,000
Leila Geiger	Deputy Justice Court Clerk	RLI Surety	\$50,000
Debra Patrick	Deputy Justice Court Clerk	RLI Surety	\$50,000
Samantha Mann	Deputy Justice Court Clerk	RLI Surety	\$50,000
Charles Williams Jr.	Tax Collector-Assessor	RLI Surety	\$100,000

STONE COUNTY

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STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, (the County) as of and for the year ended September 30, 2012, which collectively comprise the county's basic financial statements and have issued our report thereon dated March 14, 2014. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is also qualified on the governmental activities, the business-type activities, and the Correctional Facility Fund because the county did not record a liability or current-year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America. Our report also includes a qualified opinion on the General Fund because the county did not maintain and preserve subsidiary records documenting fines receivable and the aging of these fines receivable at September 30, 2012. Except for the limitations related to the qualified opinion on the General Fund, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Stone County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 12-1, 12-2, 12-3, 12-4, 12-5, 12-6, 12-7, 12-8, 12-9, 12-10, 12-11, 12-13, 12-15, and 12-17 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 12-12, 12-14 and 12-16 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-1, 12-2, and 12-3.

We also noted certain instances of noncompliance which we have reported to the management of Stone County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated March 14, 2014, included within this document.

Stone County's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Stone County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2014



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors
Stone County, Mississippi

Compliance

We have audited the compliance of Stone County, Mississippi (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. Stone County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Stone County, Mississippi's management. Our responsibility is to express an opinion on Stone County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stone County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Stone County, Mississippi's compliance with those requirements.

As described in items 12-18, 12-19, 12-20, and 12-21 in the accompanying Schedule of Findings and Questioned Costs, Stone County, Mississippi, did not comply with compliance requirements regarding activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, and special tests and provisions that are applicable to its Schools and Roads – Grants to States federal program. Compliance with such requirements is necessary, in our opinion, for Stone County, Mississippi, to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Stone County, Mississippi, did not comply in all material respects with the requirements referred to above that could have a direct and material effect on the Schools and Roads – Grants to States federal program. Also, in our opinion, Stone County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended September 30, 2012.

Internal Control Over Compliance

The management of Stone County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonably possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 12-18, 12-19, 12-20 and 12-21 to be material weaknesses.

Stone County's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Stone County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2014



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Stone County, Mississippi

We have examined Stone County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2012. The Board of Supervisors of Stone County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Stone County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

1. Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior three years' audit reports, deficiencies were noted in the capital asset records:

- a. Construction in progress for the Old Wire Trail Project was understated by \$130,516.
- b. Construction in progress for the Old Highway 49 Project was understated by \$596,803.
- c. Construction in progress for the Inda Road Improvement Project was understated by \$7,000.
- d. Land was understated by \$3,000.
- e. Buildings were understated by \$5,869,163 due to completed construction for the current and prior years not being added by the county and some items being recorded in the county's records at incorrect amounts.
- f. Leased assets in the amount of \$137,641 were paid off during the current year and not transferred to mobile equipment, resulting in mobile equipment being understated and leased property being overstated by this amount.
- g. Assets in the amount of \$120,381 were disposed of during the current year and not removed from the county's records, resulting in mobile equipment being overstated by this amount.
- h. A Channel Track System purchased in the prior year for \$21,706 was not added by the county resulting in furniture and equipment being understated by this amount.
- i. Motorola consoles in the amount of \$108,211 purchased under a capital lease in the prior year were recorded by the county in furniture and equipment, resulting in furniture and equipment being overstated and leased property being understated by this amount.
- j. A trade-in allowance in the amount of \$7,300 was not included in the purchase price of a Durapatcher purchased by the county, resulting in leased property being understated by this amount.
- k. The county did not record State Aid projects in the amount of \$564,889.
- l. Assets purchased in the current year under capital leases, a Ford F-150 pickup for \$34,784 and a Ford E-350 van for \$24,862, were recorded in mobile equipment by the county, resulting in mobile being overstated by \$59,646 and leased property being understated by the same amount.

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval. The failure to properly maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly, and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response:

Findings will be reviewed with Inventory Control Clerk, and corrected as necessary. Subsidiary ledgers for each capital project will be established.

Assistant Purchase Clerk.

2. Assistant Purchase Clerk was not sufficiently bonded.

Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Assistant Purchase Clerk to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. As reported in the prior year's audit report, the Assistant Purchase Clerk was only bonded for \$10,000 for the fiscal year 2012. In the event of a loss of public funds involving the Assistant Purchase Clerk, the funds available to the county for recovery would be limited.

Recommendation

The Assistant Purchase Clerk should execute a new bond for \$50,000, as required by law.

Assistant Purchase Clerk's Response

This finding has been corrected.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2012.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended for use in evaluating the central purchasing system and inventory control system of Stone County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2014

STONE COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2012

Our test results did not identify any purchases from other than the lowest bidder.

STONE COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2012

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
6/25/2012	A/C Compressor	\$ 5,783	Geiger Heat & Air	Compressor struck by lightning

STONE COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2012

Our test results did not identify any purchases made noncompetitively from a sole source.



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2012, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated March 14, 2014, on the financial statements of Stone County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. All county funds should be placed in approved depositories.

Finding

Section 27-105-305, Miss. Code Ann. (1972), states that the county funds and all other funds in the hands of the county treasurer shall be deposited in the qualified depository as designated annually or biannually by the Board of Supervisors. In January, 2011, the Board of Supervisors selected Bank of Wiggins as the county depository for 2011 and 2012 and ordered that all county funds be placed on deposit with the selected bank. As of September 30, 2012, the county, through its various offices, had a total of \$68,951 on deposit with The First Bank. The failure to deposit all county funds in the county depository could result in the loss of public monies.

Recommendation

All county accounts with The First Bank should be closed and the funds should be transferred to Bank of Wiggins immediately.

Board of Supervisors' Response

The Comptroller will comply.

2. Unemployment Compensation Fund's cash balance below required amount.

Finding

Section 71-5-359, Miss. Code. Ann. (1972), requires that a balance be maintained in the Unemployment Compensation Fund equal to two percent of the first Six Thousand Dollars paid to each employee thereof during the next preceding year. The cash balance at September 30, 2012, was \$12,681, which is under the required amount of \$22,080 that should have been maintained in the fund. The failure to maintain the required balance in the account resulted in noncompliance with state law.

Recommendation

The Board of Supervisors should ensure that the required amount is maintained in the Unemployment Compensation Fund equal to two percent of the first Six Thousand Dollars paid to each employee thereof during the next preceding year, as required by law.

Board of Supervisors' Response

Finding was corrected in October, 2012.

3. Interfund transfers not approved by Board of Supervisors.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record to be maintained for all proceedings of the Board of Supervisors. As reported in the prior year's audit report, interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

The Comptroller and the Board will comply.

4. Credit card charges were not properly documented for authorization.

Finding

Section 19-3-68, Miss. Code Ann. (1972), specifies the requirements governing the use of a county credit card for travel. The Chancery Clerk or Purchase Clerk shall maintain complete records of all credit card numbers and all receipts and other documentation relating to the use of such credit cards. The supervisors and county employees shall furnish receipts for the use of such credit cards each month to the Chancery Clerk or Purchase Clerk, who shall submit a written report monthly to the Board of Supervisors. The report shall include an itemized list of all expenditures and use of the credit card for the month, and such expenditures may be allowed for payment by the County in the same manner as other items in the claims docket. Travel charges to the credit card were not documented with receipts and no written reports itemizing expenditures were submitted to the Board. Failure to enforce these requirements could result in the misuse of the credit card for unauthorized or unallowed expenditures and misappropriation of public funds.

Recommendation

The Purchase Clerk should ensure that receipts are submitted for charges and a monthly report itemizing the expenditures and use of the credit card is submitted to the Board of Supervisors.

Board of Supervisors' Response

The Purchase Clerk and the Board will comply.

5. The receipt and expenditure of 911 service charges should be accounted for in a separate fund.

Finding

Section 19-5-313, Miss. Code Ann. (1972) authorizes the Board of Supervisors to levy an emergency telephone service charge to defray the costs of providing 911 service to the county. The receipt and expenditure of the county's 911 service charges are accounted for in the general fund of the county. The failure of the county to account for the receipt and disbursement of 911 service charges in a separate fund could result in these fees being used for purposes other than those authorized by law, namely the provision of 911 services to the citizens of the county and limited other purposes in the case of a surplus.

Recommendation

The Board of Supervisors should immediately establish a separate fund to account for the receipt and expenditure of all 911 service charges.

Board of Supervisors' Response

The Comptroller will comply.

6. Required forms should be completed for re-employment after retirement

Finding

Section 25-11-127, Miss. Code Ann. (1972), requires counties hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgement of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree. As reported in the prior year's audit report, the County failed to file Form 4B during fiscal year 2012 for three of its employed PERS retirees. Failure to file caused the County to be in non-compliance with legal requirements.

Recommendation

The County should file the required form with PERS as soon as possible.

Board of Supervisors' Response

This finding was due to an oversight by the Comptroller. The Comptroller will comply in the future.

7. Constable was not sufficiently bonded.

Finding

Section 19-19-3, Miss. Code Ann. (1972), requires every Constable to execute a bond for \$50,000, to be payable, conditioned and approved as provided by law. One Constable's bond was executed for \$25,000. In the event of a loss of public funds involving the Constable, the County would have been responsible for recovery of funds and might have incurred an unnecessary liability.

Recommendation

The Board of Supervisors should execute a bond in the amount of \$50,000 is executed, as required by law.

Board of Supervisors' Response

This finding has been corrected.

8. Sheriff was not sufficiently bonded.

Finding

Section 19-25-5, Miss. Code Ann. (1972), requires the Sheriff to execute a bond for \$100,000 to be payable, conditioned and approved as provided by state law. The Sheriff was insufficiently bonded for \$50,000. In the event of a loss of public funds involving the Sheriff, the funds available to the County for recovery would be limited.

Recommendation

A bond should be executed for the Sheriff in the amount of \$100,000, as required by law.

Board of Supervisors' Response

This finding has been corrected.

9. Justice Court Judge was not properly bonded.

Finding

Section 9-11-7, Miss. Code Ann. (1972), requires each Justice Court Judge to execute a bond for \$50,000, to be payable, conditioned and approved as provided by law. One Justice Court Judge was insufficiently bonded for \$10,000. In the event of a loss of public funds involving the Justice Court Judge, the funds available to the County for recovery would be limited.

Recommendation

A bond should be executed for the Justice Court Judge in the amount of \$50,000, as required by law.

Board of Supervisors' Response

This finding has been corrected.

10. Deputy Tax Assessors were not bonded.

Finding

Section 27-1-3, Miss. Code Ann. (1972), requires each Deputy Tax Assessor to execute a bond for \$10,000, to be payable, conditioned and approved as provided by law. As reported in the prior year's audit report, the Deputy Tax Assessors were not bonded. In the event of a loss of public funds involving the Deputy Tax Assessors, the funds available to the County for recovery would be limited.

Recommendation

A bond should be executed in the amount of \$10,000 for each Deputy Tax Assessor.

Board of Supervisors' Response

This finding has been corrected.

Circuit Clerk

11. Circuit Clerk claimed disallowed expenses.

Finding

Section 9-1-43, Miss. Code Ann. (1972), requires the Circuit Clerk to only claim expenses that are deductible as valid Internal Revenue Schedule C expenses. The clerk is responsible for adequate documentation to support all expenses. During the testing of the Circuit Clerk's expenses, exceptions were noted for the payment of an additional cellphone. The Clerk did not ensure the deductions for the additional cellphone were allowable Schedule C expenses for the amount of \$281.88 in the fiscal year 2012 and \$281.88 for the fiscal year 2011, for a total amount of \$563.76. Failure to deduct valid Schedule C expenses could result in the loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should ensure that all expenses are valid Internal Revenue Schedule C expenses in the future.

Circuit Clerk's Response

Has been corrected.

Auditor's Note

The Circuit Clerk paid \$563.76 to the General Fund as evidenced by Receive Warrant #776 on November 5, 2013.

Chancery Clerk

12. Chancery Clerk claimed disallowed expenses.

Finding

Section 9-1-43, Miss. Code Ann. (1972), requires the Chancery Clerk to only claim expenses that are deductible as valid Internal Revenue Schedule C expenses. The Clerk is responsible for adequate documentation to support all expenses. During the testing of the Chancery Clerk's expenses, exceptions were noted for the payment of an additional cellphone. The Clerk did not ensure the deductions for the additional cellphone were allowable Schedule C expenses for the amount of \$573.04 in the fiscal year 2012 and \$522.37 for the fiscal year 2011, for a total amount of \$1,095.41. Failure to deduct valid Schedule C expenses could result in the loss or misappropriation of public funds.

Recommendation

The Chancery Clerk should ensure all expenses are valid Internal Revenue Schedule C expenses in the future.

Chancery Clerk's Response

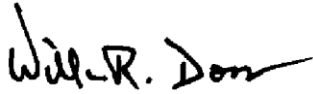
Has been corrected.

Auditor's Note

The Chancery Clerk paid \$1,095.41 to the General Fund as evidenced by Receive Warrant #763 on November 1, 2013.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Doss". The signature is written in a cursive, slightly slanted style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2014

STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

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STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | Business-type activities | Qualified |
| | Aggregate discretely presented component unit | Adverse |
| | General Fund | Qualified |
| | Road and Bridge Fund | Unqualified |
| | Countywide Bridge and Culvert Fund | Unqualified |
| | Correctional Facility Fund | Qualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | |
| | a. Hazard mitigation grant, CFDA 97.039 | Unqualified |
| | b. Schools and roads – grants to states, CFDA 10.665 | Adverse |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section ____510(a) of OMB Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| | a. Hazard mitigation grant, CFDA 97.039 | |
| | b. Schools and roads – grants to states, CFDA 10.665 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

Material Noncompliance

12-1. County signed warrants without sufficient money.

Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior five years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. As of September 30, 2012, the following funds had negative cash balances:

- a. General Fund - \$1,379,092
- b. Triad Grant Fund - \$796
- c. Sheriff Dept. Equipment Grants Fund - \$15,201
- d. Hurricane Isaac Fund - \$13,730
- e. Perkinston Elementary Shelter Fund - \$58,378
- f. Stone Elementary Shelter Fund - \$59,191
- g. Stone High School Shelter Fund - \$54,917
- h. Correctional Facility Fund - \$297,810

Failure to have sufficient cash balances in county funds prior to writing checks on these funds resulted in other funds' cash being used for purposes other than their intended purpose. These types of transactions could result in the Board of Supervisors being held personally liable for such amounts.

Recommendation

The Board of Supervisors should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

Material Weakness

Material Noncompliance

12-2. Tax anticipation notes not repaid by required date.

Finding

Section 19-9-27, Miss. Code Ann. (1972), authorizes the Board of Supervisors to borrow money in anticipation of taxes for the purpose of defraying expenses of the county and to issue negotiable notes of the county, therefore, to mature not later than April 1 of the year succeeding the year in which they are issued. For the payment of such loan, the Board of Supervisors shall either pledge the levy of a special tax each year sufficient to pay the amount borrowed for use that year, with interest, or shall pledge that such notes shall be paid out of the first money collected from taxes for the year in which they are issued. As reported in the prior two years' audit reports, the Board of Supervisors issued a \$500,000 tax anticipation note in November 2011 with a maturity date of April 2012 to be repaid out of the first money collected from taxes. However, \$305,150 of these notes was not repaid by the April maturity date as required by law. The Board of Supervisors renewed this amount and extended the maturity date until May 2013. There is no authority for the Board of Supervisors to extend the maturity date of a tax anticipation loan beyond the April 1 maturity date established by law. Failure to repay tax anticipation notes authorized under this code section by the April 1 maturity date resulted in the county actually issuing long-term debt that is not authorized for these purposes.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Recommendation

The Board of Supervisors should ensure that all tax anticipation notes issued under the authority of this code section are repaid out of the first money collected from taxes for the year in which they are issued in order to comply with the April 1 maturity date established by law.

Material Weakness

Material Noncompliance

12-3. Road bond levy used to pay capital lease obligations.

Finding

Section 65-15-15, Miss. Code Ann. (1972), authorizes the Board of Supervisors to levy a special tax to be used exclusively in paying the interest on road bonds and in providing a sinking fund for their redemption. As reported in the prior two years' audit reports, the Board of Supervisors levied a 1.26 mill tax under the authority of this code section. However, the county has not issued any road bonds. The proceeds of this levy were used to make principal and interest payments on capital lease obligations. There is no authority to levy a tax for the repayment of capital lease obligations. Failure to use tax levy proceeds for the purpose authorized by law results in a diversion of funds.

Recommendation

The Board of Supervisors should only levy for road bonds under this section when the county actually has issued road bonds and should ensure that all tax levy proceeds are expended as authorized by law.

Material Weakness

12-4. Financial data for component unit not included in financial statements.

Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issued financial statements for the financial reporting entity that include the financial data for its component unit. As reported in the prior five years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for inclusion in the county's financial statements.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Material Weakness

12-5. Reconciliations of the county's general depository accounts should be properly prepared.

Finding

An effective system of internal control should ensure that bank reconciliations are properly prepared. Any errors made in the recording of transactions in the county's general ledger should be reflected on the reconciliation as an adjustment to the balance per the general ledger, not as an adjustment to the balance per the bank statement. During the performance of audit procedures, several discrepancies were noted between the amounts recorded in the general ledger and the actual amounts per the bank statements, with some transactions being recorded in the general ledger for incorrect amounts and some transactions not being recorded at all in the general ledger. These discrepancies were reflected on the monthly bank reconciliations as adjustments to the balance per the bank statement, rather than as an adjustment to the balance per the general ledger. The failure to record transactions in the general ledger for the correct amounts resulted in a misstatement of the book balance in the general ledger and could result in the loss of public funds.

Recommendation

Every effort should be made to ensure that transactions are recorded in the general ledger for the correct amounts and that all transactions are recorded in the general ledger, even if they will subsequently be reversed. Furthermore, when errors in the general ledger are discovered during the reconciliation process, the corrections should be made to the balance per the general ledger, not the balance per the bank statement on the reconciliation. Journal entries should also be recorded to correct all errors noted during the reconciliation.

Material Weakness

12-6. Cash collections and general ledger maintenance functions are not adequately segregated.

Finding

An effective system of internal controls should include an adequate segregation of duties. As reported in the prior four years' audit reports, cash collections and general ledger maintenance functions are not adequately segregated for effective internal control. The comptroller receipts funds, prepares all deposits, reconciles the county's bank statements and posts the receipts to the general ledger. Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement effective internal control policies that allow for the proper segregation of duties for the cash collection and general ledger maintenance functions.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Material Weakness

- 12-7. Liability for postemployment benefits not recorded/note disclosures for post-employment benefits not reported.

Finding

Stone County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the county's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined benefit health care plan. GASB Statement No. 45 requires the county to report on an accrual basis the liability associated with other postemployment benefits. The county does not issue a publicly available financial report for its health insurance plan. Also, as reported in the two prior years' audit reports, the county has not recorded a liability for other postemployment benefits nor has the county reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the governmental activities, business-type activities and the Correctional Facility Fund.

Recommendation

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

Material Weakness

- 12-8. The county issued unauthorized debt.

Finding

Section 31-7-13(e), Miss. Code Ann. (1972), authorizes the Board of Supervisors to obtain lease-purchase financing for the acquisition of certain equipment. On December 5, 2011, the Board of Supervisors approved financing up to \$34,000 for the purchase of a 2011 Ford F-150 for use at the Stone County Regional Correctional Facility through a lease-purchase agreement with Southern National Bank. On December 6, 2011, the county issued warrant number 180012 in the amount of \$34,784.00 for the purchase of said vehicle. At the subsequent Board meeting on December 19, 2011, the Board approved financing up to \$38,764.93 for the purchase of the same vehicle plus specified equipment to be added to the vehicle through a lease-purchase agreement with The First. The Board had no authority to enter into the second lease-purchase agreement as they had already approved financing the vehicle purchase with Southern National Bank and the vehicle had been purchased. The issuance of debt not authorized by state statute resulted in the illegal diversion of public funds and could result in the violation of the bonded debt agreement and immediate payment of the approved funds by the Board of Supervisors.

Recommendation

The Board of Supervisors should immediately repay the outstanding balance of the unauthorized and unsecured loan from The First. The Board of should also implement internal control procedures to ensure that unauthorized debt is not issued by the county.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Material Weakness

12-9. County should use prescribed receipt warrants.

Finding

Section 25-1-75, Miss. Code Ann. (1972), requires the governing authorities of all counties to maintain duplicate receipt books, showing the date and the amount of money received. The receipt books provided shall be of permanent type, shall be approved by the State Auditor, and shall be a public record available for inspection during office hours. An effective system of internal control uses pre-numbered receipt warrants and accounts for all numbers. The receipt warrants should provide space for the date issued, the amount of money received, from whom the money was received, to what funds the money was deposited, the purpose of the money received, and the signature of official who issued the receipt warrant. The receipt warrant must also contain sufficient copies to provide for a permanent county record and a copy for the person or entity who paid the money. During our audit procedures, we noted that the county was using the prescribed warrants; however, all copies of the warrants were removed from the receipt book, leaving no permanent record of receipted funds and no accountability for warrant numbers. During fiscal year 2012, the county started using un-numbered deposit slips as receipt warrants. Failure to use pre-numbered receipt warrants with the space provided for the required information and to account for all receipt numbers has resulted in receipts being posted to the wrong fund and could result in the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should implement internal controls to ensure the county uses pre-numbered receipt warrants with space provided for all required information. The Board should also ensure that a permanent record of all money received by the county is maintained and that all warrant numbers are accounted for.

Material Weakness

12-10. The county should establish controls to ensure the Schedule of Expenditures of Federal Awards is accurately prepared.

Finding

An effective system of internal control over federal grants should include adequate subsidiary records documenting all receipts and expenditures relating to each federal grant received. The county did not report all federal expenditures for some awards and included non-federal expenditures for other awards on the Schedule of Expenditures of Federal Awards for the year ended September 30, 2012. As a result, several corrections were proposed by the auditor and made by the county to the Schedule of Expenditures of Federal Awards. The failure to accurately complete the Schedule of Expenditures of Federal Awards increases the possibility of reporting incorrect amounts of federal expenditures, as well as the possibility of omitting a federal grant on the Schedule of Expenditures of Federal Awards.

Recommendation

The county should properly maintain adequate subsidiary records documenting all revenues and expenditures relating to each federal grant received.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Material Weakness

12-11. Processing of payroll and other payroll duties are not adequately segregated.

Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior four years' audit reports, the maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weaknesses in the payroll function:

- a. The comptroller, who maintains the general ledger, also prepares the payroll and distributes some of the payroll checks.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W2's are returned directly to the comptroller.

Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that proper segregation of duties exists with respect to control of the general ledger, the processing of payroll and other payroll duties.

Significant Deficiency

12-12. Inadequate controls exists over billing and receipt of revenues for housing prisoners.

Finding

An effective system of internal control over the recording of transactions for housing prisoners should include timely billing of invoices and the proper classification of revenues and expenditures/expenses. As reported in the prior year's audit report, we noted the following deficiencies in the recording of transactions for housing prisoners:

- a. Some invoices for housing prisoners were not billed in a timely manner.
- b. The comptroller records revenues and expenditures/expenses based on the trust statements that are received; however, these transactions are not reconciled to the records maintained by the administrative assistant at the correctional facility.

Failure to bill invoices in a timely manner and reconcile recorded transactions could result in the incorrect classification of revenues and expenditures/expenses in the county's accounting records, as well as the misappropriation or loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that all transactions are recorded and correctly classified in the county's accounting records, and that all invoices for housing prisoners are billed in a timely manner.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Inventory Control Clerk

Material Weakness

12-13. Inventory Control Clerk should maintain an inventory control system.

Finding

An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior three years' audit reports, deficiencies were noted in the capital asset records:

- a. Construction in progress for the Old Wire Trail Project was understated by \$130,516.
- b. Construction in progress for the Old Highway 49 Project was understated by \$596,803.
- c. Construction in progress for the Inda Road Improvement Project was understated by \$7,000.
- d. Land was understated by \$3,000.
- e. Buildings were understated by \$5,869,163 due to completed construction for the current and prior years not being added by the county and some items being recorded in the county's records at incorrect amounts.
- f. Leased assets in the amount of \$137,641 were paid off during the current year and not transferred to mobile equipment, resulting in mobile equipment being understated and leased property being overstated by this amount.
- g. Assets in the amount of \$120,381 were disposed of during the current year and not removed from the county's records, resulting in mobile equipment being overstated by this amount.
- h. A Channel Track System purchased in the prior year for \$21,706 was not added by the county resulting in furniture and equipment being understated by this amount.
- i. Motorola consoles in the amount of \$108,211 purchased under a capital lease in the prior year were recorded by the county in furniture and equipment, resulting in furniture and equipment being overstated and leased property being understated by this amount.
- j. A trade-in allowance in the amount of \$7,300 was not included in the purchase price of a Durapatcher purchased by the county, resulting in leased property being understated by this amount.
- k. The county did not record State Aid projects in the amount of \$564,889.
- l. Assets purchased in the current year under capital leases, a Ford F-150 pickup for \$34,784 and a Ford E-350 van for \$24,862, were recorded in mobile equipment by the county, resulting in mobile being overstated by \$59,646 and leased property being understated by the same amount.

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval. The failure to properly maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly, and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Sheriff.

Significant Deficiency

12-14. Settlements in the Sheriff's office were not made timely.

Finding

An effective system of internal control for collecting, recording and disbursing cash in the Sheriff's office should include the settlement of collections to the proper parties on a timely basis. As reported in the prior year's audit report, monthly collections in the Sheriff's office were not settled to the county in a timely manner. Failure to make timely settlements of funds collected increases the possibility of loss or misappropriation of public funds.

Recommendation

The Sheriff's office should settle monthly collections to the county on a timely basis.

Circuit Clerk

Material Weakness

12-15. The Circuit Court Clerk should ensure effective controls are maintained over fines receivable records.

Finding

An effective system of internal control over fines receivable records should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance. As reported in the prior year's audit report, management did not maintain and preserve adequate subsidiary records documenting the existence and valuation of fines receivable for Circuit Clerk fines and aging of fines receivable as of September 30, 2012. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Circuit Clerk fines receivable.

Recommendation

The Circuit Clerk should establish procedures documenting the existence and valuation of Circuit Clerk fines receivable, including the aging schedule of fines receivable. The Circuit Clerk should also preserve a copy of these records.

Significant Deficiency

12-16. Bank statements were not reconciled to cash journals.

Finding

An effective system of internal control should include maintaining cash journals and reconciling the bank statements to the cash journals. As reported in the prior year's audit report, the bank statements were not reconciled to the cash journals. Failure to reconcile the bank statements to the cash journals could result in the loss of public funds.

Recommendation

The Circuit Clerk should ensure that the bank statements are reconciled to the cash journals.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Justice Court Clerk

Material Weakness

12-17. The Justice Court Clerk should ensure effective controls are maintained over fines receivable records.

Finding

An effective system of internal control over fines receivable records should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance. As reported in the prior year's audit report, based upon audit procedures performed, management did not maintain and preserve adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court Fines and aging of fines receivable as of September 30, 2012. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of Justice Court fines receivable.

Recommendation

The Justice Court Clerk should establish procedures documenting the existence and valuation of Justice Court fines receivable, including the aging schedules of fines receivable. The Justice Court Clerk should also preserve a copy of these records.

Section 3: Federal Award Findings and Questioned Costs

12-18. The county should establish controls to ensure Title III funds are expended only for authorized purposes.

10.665 Schools and Roads – Grants to States

Grant number: N/A, Department of Agriculture – Forest Service/Passed through the Mississippi Office of the State Treasurer

Questioned Costs \$25,409

Material Weakness

Material Noncompliance

Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding

During the fiscal year 2012 audit, Stone County received \$25,409 in National Forest Distribution Title III funds, a portion of the Secure Rural Schools Act State payments. The OMB Circular A-133 Compliance Supplement 2012 and U.S. Code, Title 16, Section 7142, specify these funds shall only be used by a participating county to (1) carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires; (2) reimburse the participating county for search and rescue and other emergency services, including firefighting, that are performed on Federal land, after the 45-day comment period and paid for by the participating county; and (3) develop community wildfire protection plans in coordination with the Secretary of Agriculture. During our audit testing procedures, we noted that the county commingled the Title III monies with monies from other sources in the county's Rural Fire Protection Fund. These monies were then expended for normal operating expenses of the county's rural fire protection operations and retirement of debt for the purchase of firefighting equipment. Therefore, the county did not expend the Title III funds received for authorized purposes, as required by law. With respect to the activities allowed or unallowed and allowable costs/cost principles compliance requirements, no effective internal controls were found to be in place. Failure to expend funds for allowable purposes resulted in these expenditures being reported as questioned costs and could result in the county being required to repay these funds to the federal government.

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

Recommendation

The Board of Supervisors should notify the U.S. Department of Agriculture – Forest Service that the county did not satisfy the requirements under activities allowed or unallowed and allowable costs/cost principles. The county should seek resolution from the Forest Service regarding the repayment of misused Title III funds. In addition, the Board of Supervisors should implement adequate internal controls to ensure that the county satisfies the compliance requirements for activities allowed or unallowed and allowable costs/cost principles with respect to Title III funds received.

- 12-19. The county should establish controls to ensure that Title III approved projects are initiated by the termination date.

10.665 Schools and Roads – Grants to States

Grant number: N/A, Department of Agriculture – Forest Service/Passed through the Mississippi Office of the State Treasurer

Material Weakness

Material Noncompliance

Compliance Requirement: Period of Availability of Funds

Finding

The OMB Circular A-133 Compliance Supplement 2012 and U.S. Code, Title 16, Section 7144, specify that the authority to initiate Title III projects terminated on September 30, 2012. As of September 30, 2012, the county had not initiated an approved project for the expenditure of Title III funds. This noncompliance resulted from the county's lack of internal controls over the period of availability of federal funds compliance requirement. Failure to initiate approved Title III projects by the termination date could result in the unobligated funds being returned to the federal government.

Recommendation

The Board of Supervisors should implement internal controls to ensure that the county initiates approved projects for Title III funds by the termination date, thereby satisfying the period of availability compliance requirement with respect to Title III funds received.

- 12-20. The county should establish controls to ensure the public comment period requirement is complied with before expending Title III funds.

10.665 Schools and Roads – Grants to States

Grant number: N/A, Department of Agriculture – Forest Service/Passed through the Mississippi Office of the State Treasurer

Material Weakness

Material Noncompliance

Compliance Requirement: Special Tests and Provisions – Public Comment

Finding

The OMB Circular A-133 Compliance Supplement 2012 and U.S. Code, Title 16, Section 7142(b), specify that a participating county can expend Title III funds only after a 45-day public comment period, at the beginning of which the participating county shall (1) publish in a publication of local record a proposal that describes the proposed use of the county funds, and (2) submit the proposal to any resource advisory committee for the county. Based on our audit testing procedures, the county did not provide the required public notice prior to using Title III funds nor was the 45-day comment period observed before any Title III

STONE COUNTY

Schedule of Finding and Questioned Costs For the Year Ended September 30, 2012

funds were expended. This noncompliance resulted from the county's lack of adequate internal controls over the public comment period federal requirement. Failure to provide the required public notice and 45-day comment period before any Title III funds were expended could result in the funds being used for unallowable purposes and repayment of the misspent funds to the federal government.

Recommendation

The Board of Supervisors should implement internal controls to ensure that the county complies with the public comment requirement before any Title III funds are expended.

12-21. The county should establish controls to ensure that an annual certification is submitted to the Secretary of Agriculture.

10.665 Schools and Roads – Grants to States

Grant number: N/A, Department of Agriculture – Forest Service/Passed through the Mississippi Office of the State Treasurer

Material Weakness

Material Noncompliance

Compliance Requirement: Special Tests and Provisions – Certification

Finding

OMB Circular A-133 Compliance Supplement 2012 and U.S. Code, Title 16, Section 7143, specify that not later than February 1 of the year after the year in which any Title III funds were expended by a participating county, the appropriate official of the participating county is required to submit to the U.S. Secretary of Agriculture a certification that the county funds expended in the applicable year were used for the uses authorized, including a description of the amounts expended and the uses for which the amounts were expended. The certification must also include the amount of Title III funds not obligated by September 30 of the previous year. During our audit testing procedures, we noted that the county did not submit the required certification to the U.S. Secretary of Agriculture. This noncompliance resulted from the county's lack of internal controls over the certification requirement. Failure to submit an annual certification to the Secretary of Agriculture could result in the funds being used for unauthorized purposes.

Recommendation

The Board of Supervisors should implement internal controls to ensure that the county complies with the public comment requirement before any Title III funds are expended.

STONE COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN

STONE COUNTY

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STONE COUNTY
BOARD OF SUPERVISORS

P. O. Drawer 7 • Wiggins, Mississippi 39577
Phone: (601) 928-5266 • Fax: (601) 928-6464

CORRECTIVE ACTION PLAN

December 23, 2013

Office of the State Auditor
501 N. West Street, Suite 801
Jackson, Mississippi 39201

Gentlemen:

Stone County respectfully submits the following corrective action plan for the year ended September 30, 2012.

The findings from the Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

SECTION 2: FINANCIAL STATEMENT FINDINGS

12-1 Corrective Action Planned:

All negative fund cash balances have been corrected as of September 30, 2013, with the exception of Fund 001 General County Fund. Beginning with fiscal year 2014, we have added 3 mills to our tax levy with the sole purpose of offsetting the general fund deficit. The 3 mills will not be used for any other purpose. The 3 mills are expected to bring in revenue of approximately \$297,000 in fiscal year 2014.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-2 Corrective Action Planned:

The Comptroller and the Board were unaware of this requirement until fiscal year 2013, and have complied since.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-3 Corrective Action Planned:

This finding was corrected as of the beginning of fiscal 2013. The Board moved the 1.26 mill levy from the bond fund to the Road Department fund, and all related capital leases are now being paid from said fund.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-4 Corrective Action Planned:

A copy of the Stone/Wiggins Recreational Association financial report for 2012 was obtained too late for inclusion in the county's financial statements. The Comptroller will try to obtain a copy of the Association's 2013 report for inclusion in the county's financial statements by the firm compiling the statements.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-5 Corrective Action Planned:

Comptroller was unaware of this requirement, and will comply in the future.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-6 Corrective Action Planned:

The Comptroller and the Board will attempt to comply, but are limited by the availability of personnel.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-7 Corrective Action Planned:

Because of the exorbitant costs associated with hiring an actuary to perform the postemployment benefits valuation, the Board has elected to accept this finding.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-8 Corrective Action Planned:

The Comptroller will obtain payoff for referenced loan, and the financial institution will be paid on the January 6, 2014, claims docket.

Anticipated Completion Date: January 31, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-9 Corrective Action Planned:

The Comptroller ordered a different type of receipt books in an effort to save money, and was not aware that the new receipt books did not meet state specifications. Revised receipt books will be ordered.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-10 Corrective Action Planned:

The Comptroller will comply. The county is limited because we do not have a grant administrator on staff.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-11 Corrective Action Planned:

The Comptroller and the Board will attempt to comply, but are limited by the availability of personnel.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-12 Corrective Action Planned:

The Comptroller and the Regional Correctional Facility Administrative Assistant will comply.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-13 Corrective Action Planned:

Findings will be reviewed with Inventory Control Clerk, and corrected as necessary. Subsidiary ledgers for each capital project will be established.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-14 Corrective Action Planned:

The Sheriff's Office Bookkeeper will comply.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Lachelle Carter, Sheriff's Office Bookkeeper (601) 928-7251

12-15 Corrective Action Planned:

The Circuit Clerk will comply.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Kenny Hatten, Circuit Clerk (601) 928-5246

12-16 Corrective Action Planned:

The Circuit Clerk will comply.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Kenny Hatten, Circuit Clerk (601) 928-5246

12-17 Corrective Action Planned:

The Justice Court Clerk will comply.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Glenda Joyce Cobb (601) 928-4415

SECTION 3: FEDERAL AWARD FINDINGS

12-18 Corrective Action Planned:

The Comptroller and the Board were unaware of the requirements regarding Title III funds, and will comply in the future.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-19 Corrective Action Planned:

The Comptroller and the Board were unaware of the requirements regarding Title III funds, and will comply in the future.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-20 Corrective Action Planned:

The Comptroller and the Board were unaware of the requirements regarding Title III funds, and will comply in the future.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

12-21 Corrective Action Planned:

The Comptroller and the Board were unaware of the requirements regarding Title III funds, and will comply in the future.

Anticipated Completion Date: September 30, 2014

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266